FORTHRIGHT PARTNERS, LLC

INVESTMENT LETTER, 4TH QUARTER 2023

EXECUTIVE SUMMARY

Cloudy With a Chance of Rate Cuts

Magnificent Seven Priced to Perfection

Interest Rates: Higher for Longer or Lower Rates Sooner

Be Careful What You Wish For: lower rates = economic weakness?

Economic and election uncertainties promise to make 2024 an interesting and volatile year

RECAP 2023: WHEN BARBIE AND TAYLOR MET A.I.

Like it or not, 2024 is here! As much of the country was engulfed in successive Arctic blasts, we bid Adieu to 2023, the year "…when Barbie and Taylor (Swift) Met A.I."

The live-action film "Barbie", along with the biopic "Oppenheimer" released at the same time, became the cultural phenomenon otherwise known as "Barbenheimer". Both films received critical acclaim and provided millions with fantastic entertainment right before Hollywood went on strike. Not to be outdone, Taylor Swift's concerts not only sold millions in tickets and merchandise, they also spurred meaningful spending in travel, hotel accommodations, food and transportation. The Taylor Swift Effect was both a recognition of her status as a global icon and a reflection of the post-Covid pent-up demand unleashed as our country resumed normalcy in many facets of our daily lives. Even the regional Philadelphia Fed had to give a shout-out to the tour for the impact on local hotel spending.

Concurrently, the fears of a mini-financial crisis in the first quarter of 2023 soon gave way to hope that Artificial Intelligence would forever save us from impending economic doom. Shortly after the collapse of regional banks such as Silicon Valley Bank and Signature Bank, the market turned its focus towards AI. Primary beneficiaries were the Magnificent 7 (NVIDIA, Meta, Alphabet, Apple, Amazon, Tesla and Microsoft), which ran up close to **110%** on average for the year, propelling the S&P 500 to a whopping 26%+ gain. The broader markets played catch-up for most of the year, as sanity finally made a half-hearted comeback in the last 10 weeks of the year. Needless to say, the Magnificent 7 are priced to perfection, especially in a world awash in competition.

"It is the best day ever. So was yesterday, and so is tomorrow, and every day from now until forever."

Barbie

IRRATIONAL EXUBERANCE – PART 2?

As practitioners of the investment world, it is often difficult NOT to look into the rear-view mirror when we are supposed to predict the future. Nevertheless, we are reminded of a speech given close to 30 years ago by then-Fed Chair Alan Greenspan. In his 1996 remarks to the think tank American Enterprise Institute, Chairman Greenspan coined the iconic term "irrational exuberance," alluding to the elevated equity asset values at that time. (A bit of trivia from Wikipedia: in his 2008 memoir, Chairman Greenspan recalled "...that the phrase occurred to him in the bathtub while he was writing a speech...") As we would go on to experience, irrational exuberance lingered for some time, and the NASDAQ technology bubble did not burst for another 4 years. Could this be the beginning of a reboot of "Irrational Exuberance"? Only this time it is for a much smaller number of companies that have earnings, but they are priced for seemingly endless growth.

"The optimist thinks this is the best of all possible worlds. The pessimist fears it is true."

J. Robert Oppenheimer

CLOUDY WITH A CHANCE OF RATE CUTS

On the inflationary front, various consumer and producer price indicators have pointed to a softening environment. Consumer price data have come down to an annualized 3.4% rate for 2023, down substantially from its prior year peak of 9%+. In addition to supply chains and pent-up demand easing, energy costs also provided relief in spite of continued geopolitical instability. Consequently, the markets have shifted their interest rate outlook from "higher for longer" to " lower rates sooner."

Perhaps inflation is heading lower. However, the central bank will unlikely risk tarnishing its credibility by prematurely declaring victory, as it has yet achieved the stated target inflation rate of 2%. While the latest Fed dot plot shows an expected 0.75% decline in the Fed Funds Rate in 2024, the bond market is expecting rate cuts in the 1-1.25% range. In our view, the latter expectations will unlikely materialize unless the economy experiences a dramatic slowdown. For those expecting “much-lower rates sooner,” be careful what you wish for.

“Just because you make a good plan, doesn’t mean that’s what’s gonna happen.”

Taylor Swift

LOOKING AHEAD

Whereas the past 18 months of immense volatility has been driven by uncertainty over **monetary policy (**i.e., global central bank resolve to slay the inflation beast), 2024 may provide us volatility over **politics**, as half of the world will be participating in legislative and presidential elections. The ongoing assault of misinformation by foreign threat actors such as Russia, North Korea and Iran will only aggravate domestic tensions as we ourselves gear up for what will be a memorable election no doubt.

The Fed's rate increases since March 2022 played a large role in the strength of the U.S. Dollar in 2023, which contributed to the general underperformance of foreign markets versus the large-cap U.S. index (the glaring exceptions were in countries benefiting from a re-orientation of the global trade regime, e.g., India and Mexico). If and when the central bank does begin to cut rates, we expect international and emerging markets stocks to perform relatively better since valuations are still very reasonable.

PORTFOLIO POSITIONING

Our overall strategy remains valuation driven. After a strong rally in both the stock and the bond markets in the fourth quarter, we are inclined to rebalance client portfolios to lessen any overweight in stocks. In addition to overseas markets, we are partial to reasonably-priced stocks that will benefit from the long-term trends of electrification, automation and manufacturing reshoring. Regarding bonds, we are in a holding pattern after adding to intermediate bonds in the second half of 2023.

Financial markets hate uncertainties. With economic growth having possibly peaked, elevated expectations for interest rate cuts and the looming Presidential election, 2024 promises to be an interesting and volatile year.

As always, please do not hesitate to contact us if you have any questions.

CONTACT INFORMATION

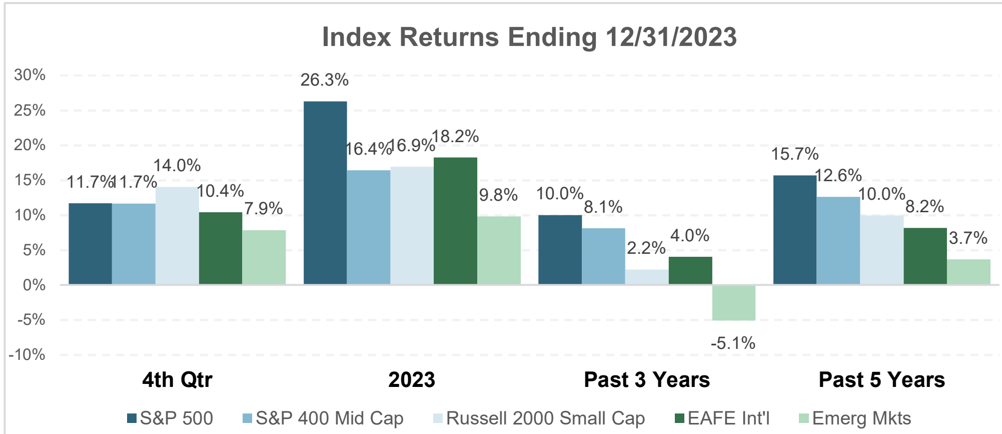
Baoky Vu, bnvu@forthrightinvestments.com

Beverly Kelly, bwkelly@forthrightinvestments.com

Hong-Tsun Simon, CFA, htsimon@forthrightinvestments.com

FOURTH QUARTER 2023 MARKET HIGHLIGHTS

Stocks – Large cap US stocks continue to outperform.

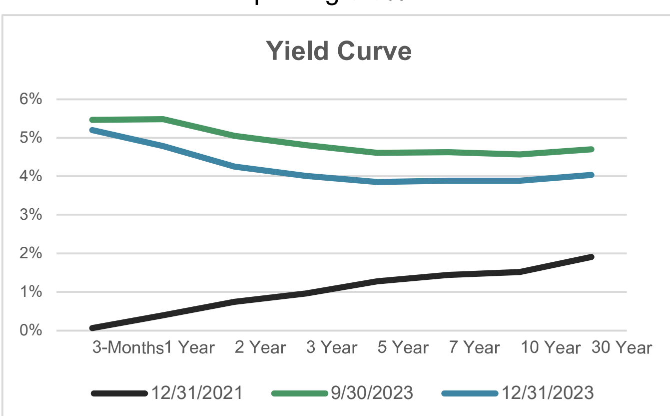


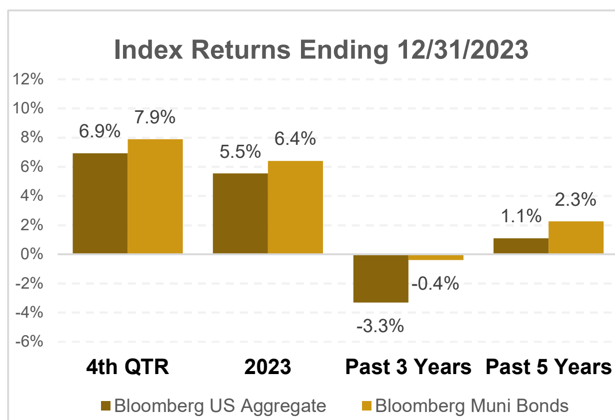
- Hopes for lower interest rates propelled global markets sharply higher in the fourth quarter.
- Small cap stocks outperformed the S&P 500 Index for the first time in 2023. However, the strength of the Magnificent Seven helped the S&P 500 Index post a whopping 26% return for the year.
- In spite of the broader stock market rally in the past three months, the "average" stock (as represented by the S&P Equal Weight Index) was up "only" 14% in 2023 versus the S&P 500 Index's gain of 26%. The Magnificent Seven posted an average increase of 111% and accounted for 75% of the S&P 500 Index's gain for the year.

Bonds – Plus ca change, plus ca ne change pas!

- Interest rates rose for the first nine months of the year, but the yields on the 10-year and 2-year bonds dropped considerably in the last quarter to end the year virtually unchanged from year-end 2022 levels.
- Both taxable and municipal bonds reported solid gains for the year, with ALL of the returns coming from the 4th quarter.
- The current Fed Funds Rate is 5.5%. While the Federal Reserve Board expects the Fed Funds Rate to be at 4.75% at the end of 2024, the bond market is expecting 3.8%!

	2 Year Bond Yields	10 Year Bond Yields
12/31/2022	4.4%	3.9%
3/31/2023	4.1%	3.5%
6/30/2023	4.9%	3.8%
9/30/2023	5.1%	4.6%
12/31/2023	4.3%	3.9%





US Government Debt

- Over 50% of US government debts mature within 3 years.
- Due to rising interest rates in the past two years, interest costs account for 14-15% of the government's budget, as compared to <10% pre-pandemic.
- According to the U.S. Department of Treasury, as of 9/30/2023, 28.5% of U.S. Government Debt is owned by foreign investors vs. 47.2% 10 years ago.